

Message Text

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ACTION EB-07

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SUBJ: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: A) STATE 165596; B) TEGUCIGALPA A-36 (4/10/74).

1. NARRATIVE STATEMENT ON INVESTMENT CLIMATE FOLLOWS:

A) THE HONDURAN GOVERNMENT HAS PUBLICLY RECOGNIZED THE NEED FOR FOREIGN INVESTMENT TO SUPPLEMENT HONDURAN CAPITAL IN THE DEVELOPMENT PROCESS AND HONDURAN OFFICIALS TAKE PRIDE IN POINTING OUT THAT NO FOREIGN INVESTMENT HAS EVEN BEEN NATIONALIZED. THE GENERAL PUBLIC SENTIMENT, HOWEVER, IS THAT FOREIGN INVESTORS SHOULD PARTICIPATE WITH LOCAL CAPITAL ON A MINORITY BASIS WHENEVER POSSIBLE. OVER THE LAST FEW YEARS NATIONALISTIC ATTITUDES HAVE GROWN, PARTICULARLY WITH RESPECT TO FOREIGN INVESTMENT IN HONDURAN NATURAL RESOURCES SUCH AS FORESTRY AND MINING. THE LABOR LAW PROVIDES FOR AT LEAST 90 PERCENT HONDURAN EMPLOYMENT IN MOST ENTERPRISES.

B) THE NATIONAL DEVELOPMENT BANK, THE MINISTRY OF ECONOMY, AND THE NATIONAL INVESTMENT CORPORATION OFFER ASSUSTABCE TO FOREIGN UNCLASSIFIED

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BUSINESSMEN INTERESTED IN INVESTING IN HONDURAS. DECREE 49 (1973) PROVIDES FISCAL INCENTIVES TO MANUFACTURING INDUSTRIES AND ALSO PROVIDES FOR THE UTILIZATION OF EITHER A DRAWBACK OR A BONDING SYSTEM BY ASSEMBLY OPERATIONS. IT ALSO STATES

THAT FIRMS WHICH ESTABLISH THEMSELVES IN AREAS OF THE COUNTRY IN WHICH THE GOH IS UNDERTAKING SPECIAL DEVELOPMENT PROGRAMS (AS YET UNDEFINED) MAY ALSO BE GRANTED GREATER INCENTIVES.

C) THE CIVIL AVIATION LAW (1969), THE FISHING LAW (1959), AND THE FORESTRY LAW (1974) IMPOSE RESTRICTIONS ON DIRECT FOREIGN INVESTMENT. COMMERCIAL FISHING LICENSES CAN ONLY BE ISSUED TO HONDURAN RESIDENTS OR TO HONDURAN CORPORATIONS IN WHICH AT LEAST 51 PERCENT OF THE CAPITAL BELONGS TO HONDURAS. THE GREATEST AMOUNT OF FOREIGN PARTICIPATION PERMITTED IN FORESTRY ENTERPRISES IS 40 PERCENT AND IN SOME CASES ACTIVITY MUST BE ENTIRELY HONDURAN-OWNED. THE AGRARIAN REFORM LAW (1975) AND THE MINING CODE (1968), WHILE NOT NATIONALISTIC PER SE, DO CONTAIN CERTAIN ELEMENTS WHICH AFFECT FOREIGN INVESTMENTS ADVERSELY. THE FORMER CONTAINS A PROVISION WHICH EXCLUDES FIRMS WHICH ARE NOT AT LEAST 51 PERCENT HONDURAN-OWNED FROM THE POSSIBILITY OF HAVING LARGER LANDHOLDINGS THAN ARE GENERALLY PERMITTED UNDER THE LAW WHILE THE LATTER RESTRICTS THE REMOVAL OF EQUIPMENT FROM HONDURAS WHEN A MINE IS CLOSED.

D) GENERALLY SPEAKING, THERE ARE NO OTHER LEGAL BARRIERS OR INCENTIVES TO DIRECT FOREIGN INVESTMENT. RED TAPE, ADMINISTRATIVE DELAYS, LEGAL INADEQUACIES, AND DIFFICULTIES IN ESTABLISHING CLEAR TITLE TO LAND MIGHT BE TERMED UNINTENTIONAL BARRIERS.

E) THERE ARE NO RULES ON LOCAL PROCUREMENT OF RAW MATERIALS OR OTHER INPUTS, AND A BUSINESSMAN GENERALLY DOES NOT HAVE TO BUY THROUGH LOCAL REPRESENTATIVES OF FOREIGN FIRMS. THE GOVERNMENT PROCUREMENT POLICY, WHEN EXPENDABLE MATERIALS ARE TO BE ACQUIRED, IS TO PURCHASE LOCALLY IF POSSIBLE; FIRMS ARE CONTACTED TO GIVE PRICE QUOTATIONS IF THE QUANTITY IS SMALL. OTHERWISE BIDS ARE HELD AT THE NATIONAL LEVEL. WHEN THE GOVERNMENT PROCURES DURABLE GOODS IT DOES SO THROUGH NATIONAL OR INTERNATIONAL BIDDING.

F) EMBASSY ESTIMATES
.. INVESTMENT AT ABOUT \$175 MILLION. NO
OFFICIAL STATISTICS EXIST BUT THE ECONOMIC PLANNING SECRETARIAT
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HAS PROVIDED THE FOLLOWING ROUGH ESTIMATES FOR NEXT LARGEST INVESTMENTS: U.K. (\$16 MILLION); WEST GERMANY (\$6 MILLION); BELGIUM (3.8 MILLION). OPIC ACTIVE CONTRACTS (CURRENT) AS OF MARCH 31, 1975 WERE: INCONVERTIBILITY, \$1.029 MILLION; EXPROPRIATION, \$19.191 MILLION; AND WAR, \$14.018 MILLION.

2. THE FOLLOWING FIGURES FOR U.S. DIRECT INVESTMENT ARE BASED UPON EMBASSY RECORDS AND MUST BE CONSIDERED ONLY APPROXIMATIONS. THE \$55 MILLION DECLINE IN TOTAL INVESTMENT FROM THE FIGURE REPORTED IN 1974 RESULTS FROM NEW INFORMATION GATHERED FROM THE U.S. BANANA COMPANIES REGARDING THEIR DIRECT INVESTMENT IN HONDURAS. FOLLOWING THE DAMAGES SUSTAINED DURING HURRICANE FIFI IN 1974.

TOTAL, ALL INDUSTRIES	\$175 MILLION
MINING AND SMELTING	11 MILLION
PETROLEUM	38 MILLION
MANUFACTURING	20 MILLION
BANANA PRODUCTION	75 MILLION
OTHER	31 MILLION

3. THERE ARE NO STATISTICS AVAILABLE ON DIRECT INVESTMENT BY ALL COUNTRIES. A SOURCE IN THE GOH ECONOMIC PLANNING SECRETARIAT PROVIDED THE EMBASSY WITH ROUGH, UNOFFICIAL ESTIMATES FOR SEVERAL COUNTRIES OTHER THAN THE U.S. ON THE BASIS OF THE DATA, TOTAL DIRECT INVESTMENT BY ALL FOREIGN COUNTRIES, INCLUDING THE U.S., IS \$212.8 MILLION. AGAIN, RELYING ON THE SAME DATA, THE THREE MOST IMPORTANT COUNTRIES (AFTER THE U.S.) WITH DIRECT FOREIGN INVESTMENT IN HONDURAS ARE:

U.K.	\$16.2 MILLION
W. GERMANY	6.0 MILLION
BELGIUM	3.8 MILLION

4. THERE ARE NO STATISTICS AVAILABLE HERE ON DIRECT INVESTMENT IN THE U.S. BY HONDURANS.
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